

New York City Consumer Survey Results

	Serving Business	Serving Residential
AT&T	No	No
MCI	Yes	Yes
Sprint	No	No
Citizens Telecom	No	No
MFS	Yes	No
TCG	Yes	Yes
RCN	Yes	Yes
Winstar	Yes	No

Spartanburg/Greenville, South Carolina

Consumers who called companies to ask about local service in the Spartanburg/Greenville areas of South Carolina had trouble even reaching a customer representative at some of the companies. When they did make contact, consumers found very few companies providing local service and those that did were only serving a small number of business customers.

- AT&T: Consumers made twenty-two attempts to reach an AT&T representative. Each attempt was met by either a busy signal or no answer.
- MCI: An MCI representative told our consumer that were not providing local service at this time but they were planning a large scale roll out in the next five months for both business and residential service.
- Sprint: Sprint is not providing local service to business or residential customers.
- ACSI: ACSI said that they are offering local service to businesses but they had "no plans for serving residential in the near future."

Spartanburg/Greenville Consumer Survey Results

	Serving Business	Serving Residential
AT&T	Yes	No
MCI	No	No
Sprint	No	No
ACSI	Yes	No

Oklahoma City, Oklahoma

Our consumer inquiries revealed that there was little local competition currently in Oklahoma City. Most companies when asked about their intentions to provide local service said vaguely that they planned to in the future.

CLECs that are providing local service in Oklahoma City include Brooks Fiber, Cox and Logix. A Brooks Fiber representative told a consumer caller that "currently we serve primarily businesses in the central portion or business district of the city. Later next week we will begin rolling out residential service in areas around the city." Cox Fibernet offers local service to large businesses but not to residential consumers. When asked why a sales representative replied, "I guess because the cost associated with building the switches isn't justified by the usage." He went on to say that they may provide residential service "maybe in early 1999."

- **AT&T:** AT&T is not offering either local residential or business service. A representative said that they plan to "in the future, but [he was] not sure when."
- **MCI:** MCI is not providing local residential or business service. When asked if they plan to offer service, a representative replied that they plan to "in the future, but not at this time." When asked why they were not providing service he said that "the local companies are fighting tooth and nail to keep us out."
- **Sprint:** According to a customer representative Sprint is only providing local service in California.
- **Brooks Fiber:** When our consumer called Brooks Fiber they were told that they were not offering residential service today, but "later next week we will begin rolling out the residential service in areas around the city. Currently we serve primarily businesses in the central portion or business district of the city." When asked why they are currently serving business but not residential the representative said he was "not sure, you'd have to talk to someone in the corporate offices for that information."
- **Cox:** The Cox representative said that they were not offering residential local service because "we are focusing on large businesses that require a T-1 system." When asked the reason for this focus, he replied, "I guess because of the cost associated with building the switches isn't justified by the usage." The representative told our caller that they had plans to provide local residential service "maybe in early 1999."
- **Logix:** A consumer caller was told that "Yes, we offer local residential service but if you take the local you have to take our package of both local and long distance service." When the consumer said, "What if I don't want it?" she was told that "You don't have to make any long distance calls using our system but you still have to be a subscriber."

Oklahoma City Consumer Survey Results

	Serving Business	Serving Residential
AT&T	No	No
MCI	No	No
Sprint	No	No
Brooks Fiber	Yes	Yes
Cox Fibernet	Yes	No
Logix	Yes	Yes

Dallas, Texas

Consumers who called companies to inquire about local service in the Dallas/Fort Worth area found that though the residential customer had very limited options, competition in the business market was starting to grow. All of the CLECs called by our consumers were offering local business service but not residential. Customer representatives from each of the companies were rather vague in their responses to the questions of if and when they planned to provide residential service.

- AT&T: AT&T is providing service to both local business and residential customers.
- MCI: MCI told consumers that they were not sure if or when they will offer either local residential or business service. A customer representative then said he "guessed [they would offer service] next year sometime."
- ACSI: A representative from ACSI said that they would probably offer residential service in the next twelve months.
- Brooks Fiber: Brooks Fiber was not sure when they would serve residential customers but said that they "plan to in the future."
- Winstar: A Winstar representative told a consumer caller that they were "looking into it" but they were not currently providing local residential service because of "regulatory reasons." Winstar is, however, serving local business customers.

Dallas/Fort Worth Consumer Survey Results

	Serving Business	Serving Residential
AT&T	Yes	Yes
MCI	No	No
Sprint	No	No
ACSI	Yes	No
Brooks Fiber	Yes	No
TCG	Yes	No
Winstar	Yes	No

What The Regulators Are Saying:

Interviews with regulators were conducted to determine the number and types of local service providers in the states and to get their sense of how competition is developing in their state. It was at the recommendation of the regulatory commission staff people that we conducted the consumer surveys. Regulators know that companies are filing for approval to provide local service to both residential and business markets as a way to guarantee they get certified so they can seek out business customers. Information provided to regulators about a company's plans to provide local residential service was seen as no guarantee to consumers that that company will, in fact, provide that service.

Arizona

Eighteen companies have been granted the authority to provide local service in Arizona. Of the certified companies, approximately thirteen have arbitration decisions and/or approved interconnection orders and some, including AT&T have filed tariffs. According to a public service commission representative, there is "very little competition for business customers" and "virtually no alternative local carriers for residential consumers."

California

Over one hundred companies are certified to be competitive local carriers in California. Tariffs have been filed by thirty-five of these companies. CPUC representatives stated, however, that the only way to determine which services the companies are actually providing is to call the companies themselves.

Louisiana

Thirty companies are certified to provide local service in Louisiana and approximately thirty-four applications for authority are pending. As of late August only two of the certified companies were actually marketing service to small pockets of business customers in a handful of the state's largest cities.⁶

"Residential phone customers, who make up the bulk of the local phone market, will have to wait for the long distance giants to enter the market before they have a choice among local service providers, industry observers say. Those are the companies with the resources to serve large numbers of residential customers at a low profit margin."⁷ "There is more money involved and more concentration [in the local business market.] In the Central Business District in New Orleans, for example, there is more money to be made than, say, one street of residential customers in Baton Rouge," said Janet Britton, a staff attorney for the Public Service Commission.⁸

⁶ Keith Darce, "Competition is Calling," *The Times Picayune*, August 17, 1997, pg. F1.

⁷ *Ibid.*

⁸ Tom Guarisco, "New Local Phone Service Starts in Baton Rouge," *The Advocate*, April 1, 1997, p.1C.

Massachusetts

Approximately thirty companies are registered as competitive local exchange carriers in the state of Massachusetts. However, according to a Massachusetts Department of Public Utilities representative, most companies appear to be "positioning themselves" rather than actually offering service. Those that are providing service are offering limited local service mainly to business customers. Only one company, RCN of New England, is actually targeting the residential market.

According to an early 1997 statement by John B. Howe, Chairman of the Massachusetts Department of Public Utilities, regulators and the industry have been feverishly busy during the past year in arbitration proceedings aimed at finalizing agreements between NYNEX and more than a half-dozen companies that are intent on providing local telecom service in several parts of Massachusetts. This competition will undoubtedly start in urban centers like Boston. Springfield is also being targeted and it's reasonable to expect it to radiate statewide.⁹

Michigan

Approximately thirty companies, including MCImetro, TCG Detroit, MFS Intelenet, AT&T, Brooks Fiber, LCI and Sprint have orders granting them authority to provide basic local exchange service in Michigan. In order to receive such a license, companies must offer both residential and business local service in their tariffs. Whether the companies actually provide these services is in question. Once a tariff is filed, the Michigan PSC takes a reactive rather than proactive position on issues. Unless they receive a complaint, the PSC does not look into what services companies are actually offering.

Mississippi

Approximately twenty-three CLECs have been granted authority to provide local service in Mississippi and about a third of these companies have actually filed approved tariffs. According to a PSC representative the companies that are providing local service are only marketing to business customers. The representative stated that most companies have said that the customers initially targeted would be businesses, but if a residential customer requests service they would try to accommodate that request. The representative noted that some companies, however, will only serve businesses.

Montana

Companies do not need certification to provide local service in Montana. They need only register with the state public service commission. When asked about the state of competition, a PSC representative said that there are niche companies providing local service but competition is "fledgling" and "spotty."

⁹ Commonwealth of Massachusetts Department of Public Utilities Website, URL <http://www.state.ma.us/dpu/dpu.htm>.

AT&T and US WEST have been engaged in negotiations over interconnection but have not yet come to an agreement. A PSC representative said she believes that the other large long distance companies are waiting to see the outcome of the AT&T negotiation before they consider entering local competition. In its application for authority, Intermedia Communications, Inc., a reseller, states that it will "market to business customers in the State of Montana. However, if a residential customer requests service we will provide service to them."

New York

Approximately seventy-five companies are certified to provide local service in New York. Only fifty-three of these companies have actually filed tariffs. Of that number, nineteen have stated that they intend to offer both business and residential service, four will offer residential service and only thirteen will only provide business service. RCN is currently reselling services but is planning to build its own facilities.

Oklahoma

There are twenty companies certified to provide local service in Oklahoma, with other applications pending. Fewer companies actually have tariffs filed and are actually offering service. According to a PSC representative, Brooks Fiber seems to be the only CLEC making a dent in local residential service.

South Carolina

Fourteen companies in South Carolina have filed for and received approval from the Public Service Commission to offer local phone service and fifty-nine interconnection agreements have been signed. However, only two companies, ACSI and Intermedia, are actually offering local service and then only to a small number of business customers.

Texas

AT&T, MCI and Sprint are among the more than one hundred fifty telephone companies that have registered in Texas to provide local service. While most companies plan to resell services of the local carriers, some companies are building or intend to build their own networks and develop switch facilities.

A spokeswoman for the state PUC estimated that about five new entrants have begun providing very limited local residential service in Texas. According to the representative, it appears that companies want to offer their long-distance business customers local service. These companies are mainly targeting big cities such as Dallas, Houston and Austin.

What the Press Is Saying About Local Competition

Press reports reflect the conventional wisdom that the "cherry picking" we see in the market now is a natural stage in the development of competition.

In California, the *San Francisco Chronicle* reports that the widest array of choices of telecommunications services is available to large businesses in areas served by the new competitors' fiber networks.¹⁰ In urban business districts, the large long distance companies are working to capture customers by combining their local and long distance bills and bundling other services. In states such as New York, the market for competitive access has been brisk for several years. Providers there are quickly signing up new local customers.

"There is competition for business customers in large urban markets," said Scott Cleland, a senior analyst at Schwab Washington Research Group an industry research firm. "But the question is: Where is competition in the residential market going to come from?"¹¹ He predicts that there will be very little residential competition because the major long distance companies are focusing on the business market over the less profitable residential market. Cleland says, "The real disappointment of the Telecom Act is that there is going to be very little residential competition."¹²

Mr. Cleland is at least asking the right questions about the development of the market. Other press reports speculate about when, and to what degree, we will see competition in the local residential service market.

Some analysts say the benefits of competition in local phone service for residential consumers may be slow in coming. On the whole, residential consumers spend less on phone services, and are, therefore, less profitable to serve than business customers. Hongjun Li, a telecommunications analyst at Parks Associates, says that "right now very few consumers have a second choice" in local phone service. It will take at least two years for at least 20% to 30% of consumers to feel they have a second choice." Brett Azuma, director and principal analyst at California-based Dataquest Inc., said that local service is the last area of telecommunications largely untouched by competition. "Local service, more than just straightforward profitability, provides that link to the customer," he said. "It's the first point that the end user connects with the public switch network, and, as such, it's considered strategic."¹³

¹⁰ Ilana DeBare, "Most Business Do Have Real Choices for Local Phone Service," *San Francisco Chronicle*, April 1, 1997.

¹¹ Mark Landler, "Instead of the Flood . . .," *New York Times*, February 10, 1997, p. D7.

¹² Mark Landler, "Year of Intense Activity Looms . . .," *New York Times*, January 2, 1997.

¹³ "GTE Prepares to Invade Local Access Service Turf," *Dallas Business Journal*, October 17, 1997.

This article and others indicate that residential competition must come eventually because residential service is essential for those companies who want to provide a full range of services. Where are the companies that are in the best position to begin offering those packages? The big three long distance companies were supposed to lead the way into this market, but so far they are not making a dent.

Some observers offer these theories.

Cherry Picking

The three largest interexchange carriers, AT&T, MCI and Sprint, are slowly entering local telephone service, but are taking time to determine the most lucrative method for breaking into the market. Most are targeting the business community. According to Michael French, vice president of research with the Insight Group which does market research on the telecom industry, AT&T, MCI and others are "cherry picking," or luring away, BellSouth's most profitable business customers by offering them one-stop shopping for local and long distance service at discounted prices.¹⁴

When the Act passed, AT&T Chairman Robert Allen boldly predicted that it would snare at least 1/3 of the local market within five to ten years.¹⁵ AT&T made its big splash in January, 1997, when it announced that it would begin offering local phone service on most outbound calls for any business dialing up monthly bills of \$2,500 or more in 35 states. Many analysts found that offer disappointing, expecting perhaps a partnership announcement with GTE.¹⁶

MCI has taken an aggressive approach to gaining local business customers. So far the company has launched local service for mid-sized to large businesses in twenty-five markets (twenty-one over its own networks), including Atlanta, Chicago, Los Angeles, New York, and Seattle and plans to be in sixty by year end.¹⁷

Sprint has filed for regulatory approval to provide local service in forty-seven states and the District of Columbia. Sprint has begun to serve large business customers in Orlando, Florida. It has said that it intends to size up local markets carefully. "We're not going to throw dollars at what might be. When we go into a city we'll know which customers we're going after, and that will determine where we build or lease facilities," said Sprint president, D. Wayne Peterson. Sprint is committed to spending billions on new wireless technology.¹⁸

Lack of Focus and Systems Readiness

¹⁴ Tom Guarisco, "Critics of Expansion Urge More Competition," *The Advocate*, July 13, 1997.

¹⁵ Richard Siklos, "Crybaby Bells . . ." *The Financial Post*, August 2, 1997, p. 7.

¹⁶ Patricia Horn, "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, p. 3D.

¹⁷ Richard Siklos, "Crybaby Bells . . ." *The Financial Post*, August 2, 1997, p. 7.

¹⁸ Andrew Kupfer, "The Telecom Wars," *Fortune*, March 3, 1997.

While the upstarts are luring away customers and putting pressure on prices in the \$70 billion a year long distance business, their drive into the \$100 billion local market is sputtering. It is clear that no long distance company has discovered an easy way to enter the local market. AT&T has the haziest strategy of all, vowing to do whatever it takes to crack the market. A former AT&T insider has said that the lack of local focus springs from indecision. The company has shifted strategies too often, ignoring fundamentals while trying to look slick, and has been agonizingly slow at implementation. Recently it reached out to the bypass companies for help. And the company still doesn't have an integrated billing system so that it could offer customers all services on a single bill. It only recently started billing for its long distance service.¹⁹

At one point AT&T's strategy for entry into the local market involved a merger with SBC Communications. Since that idea was quashed by FCC Chairman Hundt, AT&T's strategy has been murky. It now plans to begin with total services resale and use the unbundled network platform as quickly as it can.²⁰

Limit Competition in the Long Distance Market

Lois Hedg-peth, recently named president of AT&T's 14-state western region, said her goal is to make the long-distance company a force in local telephone markets from California to Minnesota. But she is the first to admit that AT&T hasn't made much of an impact in local markets so far, especially in California. To accomplish her goal, her unspoken task may be to delay Pacific Bell's entry into the long-distance market.²¹

Press Reports: A Sampling of What's Happening in the States

Florida

Those companies actually offering local service are, not surprisingly, focusing on the business market. MCI offers facilities-based service to businesses in Tampa, Orlando, Ft Lauderdale and Miami.²² Sprint, Intermedia, MFS, ACSI and AT&T are also offering local service to business customers in limited areas.²³ AT&T says that it plans to go after both residential and business customers but so far only business customers have been targeted. It plans to test local residential service in the Southeast, first in Georgia. If that goes well, they might begin offering service toward the end of the year.²⁴

¹⁹ *Ibid.*

²⁰ Richard Siklos, "Crybaby Bells . . .," *Financial Post*, August 2, 1997.

²¹ Staff writer, "Women Executives Take Center Stage as Telecommunications Industry Wars Play Out," *San Francisco Business Times*, October 17, 1997.

²² MCI Company Press Release, "MCI Seeks Cuts in Local-Competition-Chilling Costs," August 28, 1997.

²³ "You're Going to do What?" *The Tampa Tribune*, August 3, 1997, Business and Finance, pg. 1.

²⁴ "AT&T Joins Local-Service Bandwagon," *Sun Sentinel*, January 28, 1997, Business, pg. 3D.

Time Warner Cable came within weeks of launching its own residential phone service last October. But after building a phone network throughout central Florida, the venture was stopped by New York executives in reaction to the company's sagging stock price.²⁵

Georgia

More than forty telephone companies, most of them small, have signed agreements with BellSouth that would permit them to offer local service. As of last May, neither AT&T, MCI nor Sprint had even announced a target date for offering local service. AT&T recently stated that it would offer only resale of lines and services offered by BellSouth, although AT&T does offer some local service to businesses over its own lines.²⁶

South Carolina

Upstart local service companies plan to focus most of their resources in South Carolina on high volume business accounts, ignoring the residential community. When asked what he would tell residential customers, Carl Jackson, director of local exchange services for Intermedia, said, "[I'd] tell them don't wait on [us] for the time being: it's strictly a business focus now."²⁷ ACSI spokesman James Falvey echoed that sentiment, saying that "the economics aren't there right now for us to provide residential service."²⁸

Texas

While competition is starting to surface in Texas, many observers have said that competition will not count until AT&T and MCI really get into the game.²⁹ This may soon happen as, according to a PSC representative, contractual issues regarding interconnection terms and conditions for local telephone competitors brought for arbitration by AT&T and MCI were resolved at the end of September.

While the residential market is largely still on hold, the business market appears poised to thrive. Business phone competition "is happening very quickly," said Jim Henry, who works for a company that manages office building phone systems.³⁰ In addition, in Dallas, a handful of new entrants are installing equipment to handle local calls, but almost all of them are targeting lucrative corporate accounts and ignoring residential customers.³¹

²⁵ "Companies Power Up Competition," *The Orlando Sentinel*, January 6, 1997, Central Florida Business Section, pg. 40.

²⁶ Michael Kanell, "AT&T Makes Formal Call to Dial into Local Service," *Atlanta Journal*, May 9, 1997, p. 01H.

²⁷ Andrew Meadows, "Competitors Stay Out of Local Phone Market," *The State*, July 18, 1997, p. B7- B11.

²⁸ *Ibid.*, at B7.

²⁹ Jennifer Files, "AT&T Adds Local Service in SE Texas," *The Dallas Morning News*, July 16, 1997, p. 1D.

³⁰ Jennifer Files, "Telecom Reform Winds Up With a Whimper," *The Dallas Morning News*, February 9, 1997, p.

1H.

³¹ *Ibid.*

The local residential service offerings are meager in comparison. AT&T is expanding its efforts to provide residential local phone service throughout Southwestern Bell's markets. "We're still in the very early stages of crawling," said AT&T spokesman Chris Schein. Like most aftereffects of the nation's 18-month-old telecommunications reform bill, AT&T's shift is more subtle than promised, more a sneak attack than a blitzkrieg.³²

³² Jennifer Files, "AT&T Expands its Reach," *The Dallas Morning News*, August 20, 1997, p. 1D.